



**DEPARTMENT OF  
FINANCE**  
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

June 7, 2007

Honorable Don Perata  
Senate President pro Tempore

Honorable Fabian Nuñez  
Speaker of the Assembly

Honorable Dick Ackerman  
Senate Republican Leader

Honorable Michael Villines  
Assembly Republican Leader

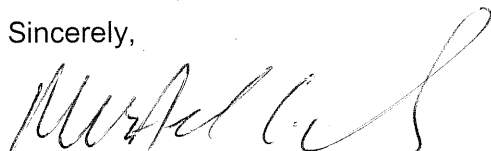
We will be issuing our Monthly Finance Bulletin next week. While all revenue data for May are not yet available, preliminary cash receipt information for the Personal Income Tax, Sales and Use Tax, and Corporation Tax reflects a shortfall of \$764 million as compared to our revenue forecast from the May Revision. Given the magnitude of this shortfall, I felt it was important to alert you to it as soon as possible. The table below details the components of the shortfall.

	<b>May 2007</b>			<b>Year-to-Date 2006-07</b>		
	dollars in billions			dollars in billions		
	Forecast	Actual	Difference	Forecast	Actual	Difference
Personal Income Tax	\$2.711	\$2.304	-\$0.407	\$47.490	\$46.846	-\$0.644
Sales Tax	2.681	2.600	-0.081	25.624	25.543	-0.081
Corporation Tax	<u>0.287</u>	<u>0.249</u>	<u>-0.038</u>	<u>9.062</u>	<u>9.024</u>	<u>-0.038</u>
Total Big 3	\$5.679	\$5.153	-\$0.526	\$82.176	\$81.413	\$0.764

It is too early to know the impact, if any, of May cash on the 2007-08 revenue forecast. We were pleased that income tax withholding came within \$20 million of the \$2.67 billion forecast. However, the \$764 million shortfall through May puts the Special Fund for Economic Uncertainties at risk.

I would urge you to consider the implications of this shortfall for the Legislature's deliberations on the budget. In my view, the shortfall underscores the need for the Legislature to adopt all of the savings proposed in the May Revision.

Sincerely,



MICHAEL C. GENEST  
Director

cc: On following page

cc: Honorable John Laird, Chair, Conference Committee  
Honorable Denise Moreno Ducheny, Vice-Chair, Conference Committee  
Honorable Mike Machado, Member, Conference Committee  
Honorable Mark Leno, Member, Conference Committee  
Honorable Dennis Hollingsworth, Member, Conference Committee  
Honorable Roger Niello, Member, Conference Committee  
Ms. Elizabeth Hill, Legislative Analyst (3)  
Ms. Diane Cummins, Senate President pro Tempore's Office  
Mr. Craig Cornett, Assembly Speaker's Office  
Mr. Dan Chick, Senate Republican Leader's Office  
Ms. Deborah Gonzales, Assembly Republican Leader's Office  
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee  
Mr. Seren Taylor, Staff Director, Senate Budget and Fiscal Review Committee  
Mr. Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee  
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee